



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

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Contact: Peggy Peterson at 226-0471

BACHUS, KELLY SUBCOMMITTEES TO HOLD HEARING ON PREVENTING FRAUD IN FINANCIAL SERVICES

As indicted financier Martin Frankel faces felony charges in the United States, two House Financial Services subcommittees will hold a joint hearing on Tuesday, March 6, on preventing financial fraud. Members of the Subcommittee on Oversight and Investigations, chaired by U.S. Rep. Sue W. Kelly (NY), and the Subcommittee on Financial Institutions and Consumer Credit, chaired by U.S. Rep. Spencer Bachus (AL), will meet at 2 p.m. in room 2128 of the Rayburn House Office Building.

The members will examine how financial regulators currently share information about criminal fraud, as well as possible actions to further protect the consumers of financial products.

Originally a stockbroker, Frankel was permanently barred from the securities industry but migrated to the insurance industry.

"As the Frankel case shows, bad actors can too easily cross state or industry lines in order to deceive regulators," said House Financial Services Committee Chairman Michael G. Oxley (OH). "Our Committee must act to protect the taxpayers and policyholders who end up paying for these scams and to assist the regulators in preventing them."

Regulation of the financial services industry is complex: over 200 government departments and agencies are involved, and each has its own records system. While the securities and banking industries are primarily regulated at the federal level, insurance oversight is done by the states. Primary regulation of an insurance company is done by the state in which the company is headquartered, with additional licenses granted from other states in which the company conducts business.

Since the 1999 enactment of the landmark financial services reform law known as Gramm-Leach-Bliley, financial companies can now expand and affiliate in new ways,

increasing the scope of their business activities and the products they offer. In the new landscape, financial holding companies are being formed to house new types of businesses, which are regulated according to their function no matter what kind of company offers them.

The explosion of the number of online financial transactions also presents a formidable challenge for regulators.

Financial Institutions Chairman Bachus commented "We must coordinate anti-fraud efforts in light of the continuing integration of the financial services industry. The blurring of the separation among banking, securities, and insurance activities as a result of Gramm-Leach-Bliley makes cooperation and coordination between regulators at the federal and state levels more important than ever."

Regarding the effort, Oversight and Investigations Chair Kelly said, "Under Gramm-Leach-Bliley's 'functional regulation,' regulators are to work together. Unfortunately, the regulators don't have any real system to share records in order to better police their industries. We have called this hearing to gain a better understanding from regulators and the industry. It is our hope that this can lead to legislation to facilitate communication and to help stop would-be Martin Frankels."

A report completed by the non-partisan General Accounting Office in September of 2000 concluded that confidential information sharing between state and federal government levels and among the various industry regulators could prevent future fraud or result in earlier detection.

In the coming weeks, Oxley hopes to explore the possibility of creating an anti-fraud network to allow regulators to quickly share information confidentially about individuals charged or convicted of financial services fraud.

Witnesses scheduled to testify are:

Panel I

- Julie Williams, First Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency
- Scott Albinson, Managing Director, Examination and Supervision, Office of Thrift Supervision
- Terri M. Vaughan, Iowa Commissioner of Insurance, Vice President of National Association of Insurance Commissioners, on behalf of NAIC
- Dennis Lormel, Section Chief, Financial Crimes Section, representing the Federal Bureau of Investigation
- David M. Becker, General Counsel, Securities and Exchange Commission

Panel II

- David M. Walker, Comptroller General, U.S. General Accounting Office
- Karen Wuertz, Senior Vice President, Strategic Planning and Development, National Futures Association
- Thomas Rodell, Executive Vice President and Chief Operating Officer of Aon Risk Services, Inc. and Chairman of The Council of Insurance Agents and Brokers on behalf of The Council
- Ronald A. Smith, President, Smith, Sawyer and Smith, Inc., State Government Affairs Chairman of IIAA on behalf of Independent Insurance Agents of America
- Steve Bartlett, President, The Financial Services Roundtable